MULTIMEDIA UNIVERSITY

STUDENT ID NO.

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019 / 2020

PEM0024 – ESSENTIALS OF MICROECONOMICS

(All sections / Groups)

17 OCTOBER 2019
9.00 a.m - 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **EIGHT (8)** printed pages with:
   Section A: **Forty (40)** multiple choice questions (40 marks)
   Section B: **Three (3)** structured questions (60 marks)

2. Answer **ALL** questions.

3. Shade your answers for **Section A** in the Multiple-Choice Answer Sheet and **Section B** in the Answer Booklet provided.

4. Marks allocations are shown at the end of each question.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

Instruction: Shade your answer in the multiple choice answer sheet.

1. The problem of scarcity is seen as __________ to the household.
   A. limited income but limited wants
   B. unlimited income but limited wants
   C. limited income but unlimited wants
   D. unlimited income but unlimited wants

2. Land, labour, capital and entrepreneurship are classified as
   A. factors of quality.
   B. factors or resources.
   C. factors of production.
   D. factors of quality of resources.

3. The choice of the distribution of output means answering the question of
   A. for whom to produce.
   B. how to produce.
   C. what to produce.
   D. both what to produce and how to produce.

4. An outward shift of the production possibilities curve is caused by
   A. an increase in technology.
   B. a decrease in population.
   C. less availability of resources.
   D. an increase in the cost of production.

5. In the circular flow model, producers
   A. sell goods and services in the factor market.
   B. hire resources sold by households in the factor market.
   C. spend earnings from resource sales on goods and services in the product market.
   D. and households spend earnings from resource sales on goods and services in the factor market.

6. The owners of the resource __________ are paid __________.
   A. land; wages
   B. labour; profit
   C. capital; interest
   D. entrepreneurship; wages

7. Which of the following elements is a characteristic of capitalism?
   A. Central Planning Authority.
   B. Public ownership of resources.
   C. Less competition.
   D. Private ownership of resources.

Continued...

8. A major reason for the law of demand is
   A. the demand curve includes the appropriate ceteris paribus assumption.
   B. people substitute lower-priced goods for higher-priced goods.
   C. one price changing requires at least one other price to change in the opposite direction.
   D. a higher price never reduces quantity demanded by enough to lower total revenue.

9. The law of demand states that prices and quantity demanded are
   A. independent.
   B. directly related, ceteris paribus.
   C. inversely related, ceteris paribus
   D. positively related, ceteris paribus

10. If good A is a normal good, an increase in income will
    A. result in surplus of good A.
    B. not affect the demand for good A.
    C. shift the demand curve for good A leftward.
    D. shift the demand curve for good A rightward.

11. If demand falls by a greater amount than supply falls, then equilibrium price ________ and equilibrium quantity __________.
    A. rises, rises
    B. rises, falls
    C. falls, rises
    D. falls, falls

12. The price elasticity of demand can range between
    A. zero and one.
    B. zero and infinity.
    C. negative one and one.
    D. negative infinity and infinity.

13. Elasticity of demand is closely related to the slope of the demand curve. The more responsive buyers are to a change in price, the
    A. steeper the demand curve will be.
    B. flatter the demand curve will be.
    C. further to the right the demand curve will sit.
    D. closer to the vertical axis the demand curve will sit.

14. The price elasticity of demand measures how much
    A. quantity demanded responds to a change in price.
    B. quantity demanded responds to a change in income.
    C. price responds to a change in demand.
    D. demand responds to a change in supply.

Continued...

15. For a good that is a luxury, demand
    A. has unit elasticity.
    B. tends to be elastic.
    C. tends to be inelastic.
    D. cannot be represented by a demand curve in the usual way.

16. Demand is said to have unit elasticity if elasticity is
    A. less than 1.
    B. greater than 1.
    C. equal to 1.
    D. equal to 0.

17. Elasticity of demand is closely related to the slope of the demand curve. The more responsive buyers are to a change in price, the
    A. steeper the demand curve will be.
    B. further to the right the demand curve will sit.
    C. flatter the demand curve will be.
    D. closer to the vertical axis the demand curve will sit.

18. Assume that the income elasticity of demand for flat screen television is 2.1. The coefficient suggests that flat screen televisions are ____________ goods.
    A. luxury
    B. normal
    C. inferior
    D. essential

19. Irwan normally purchases six slices of cakes every months. Recently, Irwan's income increased from RM1,800 to RM2,500. He does not buy cakes anymore. For Irwan, the cake is considered as
    A. luxury goods.
    B. normal goods.
    C. inferior goods.
    D. essential goods.

20. Cross-price elasticity of demand is used to decide whether
    A. the demand is elastic or inelastic.
    B. a product is a normal or a luxury good.
    C. two commodities are substitutes or complements.
    D. the demand is perfectly elastic or perfectly inelastic

21. If the price elasticity of supply for a leather purse is 0.65 and the price increases by 3%, then the quantity supplied for the leather purse will
    A. decrease by 1.95.
    B. decrease by 0.217.
    C. increase by 1.95.
    D. increase by 0.217.

Continued...

22. When an economist talks about utility, it is about
    A. a company that provides electricity, water, gas, etc.
    B. the satisfaction that results from the consumption of a good.
    C. the satisfaction, in terms of price, that a producer receives from selling his product.
    D. the amount of one good that a person is willing to give up in order to get a unit of another good.

23. The law of diminishing marginal utility can be stated that
    A. as the amount of a good consumed increases, the sum of satisfaction received tends to decrease.
    B. as the amount of a good consumed increases, the additional satisfaction gained from consuming additional units tends to decrease.
    C. as the amount of a good consumed decreases, the additional satisfaction gained from consuming additional units tends to decrease.
    D. as the amount of a good consumed increases, the sum of satisfaction received tends to increase at an increasing rate.

24. Total utility is maximum when marginal utility is
    A. zero.
    B. positive.
    C. negative.
    D. maximum.

25. An indifference curve analysis explains
    A. the best number of consumption between prices of goods.
    B. the maximum utility that can be achieved for a given budget.
    C. the maximum utility that can be achieved for consuming a product.
    D. the combination of two goods giving equal utility to a consumer.

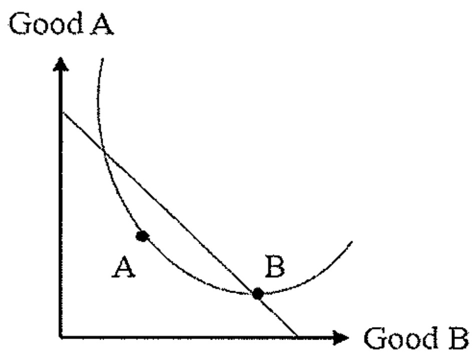

Exhibit 1

26. Refer to **Exhibit 1**. Which of the following statements is correct about the diagram?
    A. The consumer prefers B to A.
    B. The consumer prefers A to B.
    C. The point A and B yield the same level of satisfaction.
    D. None of the above.

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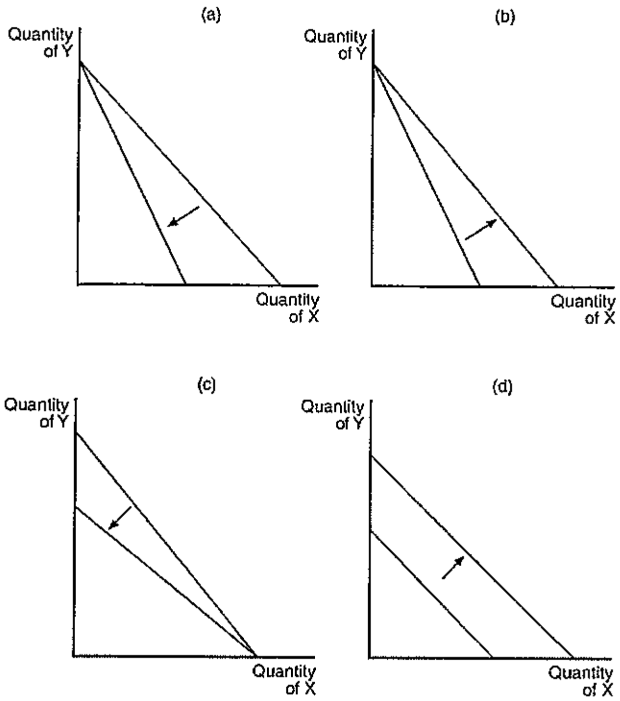

Exhibit 2

27. Refer to **Exhibit 2**. Which of the graphs in the figure reflects a decrease in the price of good X only?
    A. graph (a)
    B. graph (b)
    C. graph (c)
    D. graph (d)

28. When the second glass of orange juice does not provide as much satisfaction as the first glass of orange juice, this illustrates
    A. opportunity cost concept.
    B. the budget line.
    C. diminishing marginal utility.
    D. consumer achieve the equilibrium point.

29. The following information is about a business Kelvin opened last year:
    Price = RM 4/unit
    Quantity Sold = 12, 000 units
    Implicit cost = RM 14, 000
    Explicit cost = RM 20, 000

    Based on the above information, what was Kelvin's economic profit?
    A. RM 28, 000.
    B. RM 34, 000.
    C. RM 14, 000.
    D. RM 42, 000.

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30. If the average variable cost is rising,
    A. MC must be below AVC.
    B. MC is neither rising nor falling.
    C. MC is bigger than AVC.
    D. MC is decreasing.

31. The short run is a time period in which
    A. all factors of production are fixed.
    B. the total of output is fixed.
    C. at least one input is fixed
    D. all factors of production are variable.

32. Which of the following items is an implicit cost to a firm?
    A. Utilities bills.
    B. Total fixed cost.
    C. Cost of hiring an external trainer.
    D. Time during the weekend spent by the owner on his/her firm.

33. Which of the following statements is **TRUE**?
    A. At least one input is fixed in the short run.
    B. The total of output is fixed in the long run.
    C. All factors of production are fixed in the long run.
    D. All factors of production are variable in the short run.

34. The average fixed cost is equal to the
    A. total fixed cost divided by total output.
    B. marginal cost divided by total output.
    C. total variable cost divided by total output.
    D. total cost divided by total output.

35. A firm facing economist of scale over a range of output will have a
    A. declining long-run average cost curve.
    B. declining short-run average cost curve.
    C. fluctuating long-run average cost curve.
    D. rising long-run average cost curve.

36. Charging different prices to different consumers for the same good is an example of
    A. monopolization.
    B. increasing return to scale.
    C. price discrimination.
    D. perfect competition.

37. If a perfectly competitive firm become a monopoly and its cost does not change, what are the implications?
    A. Price and marginal cost will rise.
    B. Average cost and total profit decrease.
    C. Quantity decreases and the average cost rises.
    D. Price, quantity, and total profit increase.

Continued...

38. Which of the following is a close example of a firm in a imperfect competition industry?
    A. CIMB Bank.
    B. Petronas.
    C. Perodua.
    D. All of above.

39. In a monopolistically competitive industry,
    A. there is no freedom of entry and exit.
    B. firm in the industry produce slightly differentiated product.
    C. there are few sellers.
    D. All of the above.

40. As a result of the kinked demand curve,
    A. the marginal revenue curve has a gap.
    B. the marginal revenue curve is horizontal.
    C. the marginal revenue curve is straight downward sloping.
    D. All of the above.

SECTION B: STRUCTURED QUESTIONS (60 marks)

Instruction: Answer all questions in the answer booklet provided.

Question 1

(a) With the aid of an appropriate diagram, explain a consumer's budget line. (8 marks)

(b) Using a diagram consisting of the combination of an indifference curve and budget line, discuss how a consumer can achieve the equilibrium level.

(12 marks)

[Total: 20 marks]

Continued...

Question 2

The table in **Exhibit 3** shows the cost schedule for EZ Rayyan Enterprise.

Output (unit)	Total Fixed Cost (RM)	Total Variable Cost (RM)	Total Cost (RM)	Average Fixed Cost (RM)	Average Variable Cost (RM)	Average Cost (RM)
0			20			
1			50			
2			70			
3			86			
4			110			
5			150			
6			206			
7			270			

Exhibit 3

(a) Complete the **Exhibit 3** cost schedule EZ Rayyan Enterprise (re-produce Exhibit 3 in your answer booklet).

(10 marks)

(a) Based on your answer in (a), sketch the Average Variable Cost, Average Total Cost and Marginal Cost curve in a diagram. (10 marks)

[Total: 20 marks]

Question 3

(a) Describe the FOUR (4) characteristics of a perfectly competitive firm. (10 marks)

(b) List FIVE (5) similarities between monopolistic competition and perfect competition market structures.

(10 marks)

[Total: 20 marks]

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